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Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-06 NEA-09 ISO-00 FEA-01 AEC-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01

H-01 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00

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TO SECSTATE WASHDC 7495
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
US MISSION EC BRUSSELS
AMEMBASSY JIDDA
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY PARIS
US MISSION EC PARIS
AMEMBASSY ROME
AMEMBASSY TEHRAN

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 0948

E.O. 11652: GDS
TAGS: ENRG JA
SUBJ: OIL STOCKPILING PLAN APPROVED

SUMMARY: MITI AND MOF HAVE REACHED AGREEMENT ON PLAN TO INCREASE JAPANESE OIL STOCKS TO 70 DAY LEVEL BY MARCH 31, 1976. UNDER PLAN GOJ WILL PROVIDE VARIOUS TYPES OF ASSISTANCE, PARTLY THROUGH $110 MILLION APPROPRIATION FROM JFY 1975 BUDGET, FOR FINANCING RESERVES AND ACQUIRING STORAGE FACILITIES. HOWEVER, PRIMARY RESPONSIBILITY FOR STOCKPILING WILL BE PLACED ON PRIVATE SECTOR. MITI WILL SEEK LEGISLATION ENABLING IT TO DIRECT OIL COMPANIES TO
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INCREASE RESERVES TO DETERMINED LEVELS.

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WHILE GOJ NOW EMBARKING ON EFFORT TO INCREASE RESERVES,
SERIOUS PROBLEMS EXPECTED FROM PRIVATE SECTOR
RESISTANCE TO BEARING MAIN FINANCIAL BURDEN AND PUBLIC
OPPOSITION TO LAND ACQUISITION AND STORAGE CONSTRUCTION.
END SUMMARY.

1. OVER PAST FEW MONTHS DEBATE HAS BEEN CONDUCTED IN
JAPAN ON METHOD, AND DEGREE OF GOVERNMENT SUPPORT, FOR
RAISING JAPANESE OIL RESERVES TO 90 DAY TARGET LEVEL.
DEBATE CONDUCTED BOTH WITHIN GOJ, E.E. BETWEEN MINISTRY
OF INTERNATIONAL TRADE AND INDUSTRY (MITI) AND MINISTRY
OF FINANCE (MOF), AND BETWEEN GOVERNMENT AND PETROLEUM
INDUSTRY. IN ESSENCE, PETROLEUM INDUSTRY AND MITI
ARGUED FOR GOVERNMENT TO BEAR AT LEAST MAJOR PART OF
COSTS, WHILE MOF SOUGHT TO PLACE BURDEN ON PRIVATE
SECTOR. MITI PRESSED FOR FAIRLY EXTENSIVE GOVERNMENT
PROGRAM TO BE PAID FOR BY PETROLEUM CONSUMPTION TAX;
HOWEVER, MOF REPORTEDLY OBJECTED ON GROUNDS OF TAXATION POLICY
(OPPOSITION TO TAX EARMARKED FOR SPECIFIC PURPOSE) AND
DETERMINATION TO HOLD DOWN BUDGET EXPENDITURES AND TO
AVOID INFLATIONARY PRICE RISES.

2. IN THE END, MOF VIEW PREVAILED, AT LEAST FOR JFY 1975.
AGREEMENT REACHED IN MID-JANUARY BETWEEN MITI AND MOF
MINISTERS TO ALLOCATE YEN 32.2 BILLION (ABOUT $110
MILLION) IN JFY 1975 BUDGET FOR INCREASING JAPAN'S
PETROLEUM STOCKS TO 70 DAY LEVEL BY END OF FISCAL YEAR,
I.E. MARCH 31, 1976 BUDGET, WHICH WILL BE PRESENTED
TO DIET WITHIN NEXT FEW DAYS, IS EXPECTED TO BE
APPROVED WITH VIRTUALLY NO CHANGE AROUND END MARCH. OIL RESERVES
WILL BE CALCULATED ACCORDING TO OECD FORMULA AND WILL
BE BASED ON AVERAGE CONSUMPTION RATE DURING
CALENDAR 1975.

3. ACCORDING TO DIRECTOR OF MITI TASK FORCE ON STOCK-
PILING, MASAJI YAMAMOTO (PROJECT). STOCKPILING PLAN
DOES NOT INVOLVE DIRECT PURCHASES OR OWNERSHIP OF
PETROLEUM BY GOJ. MITI INTENDS TO INTRODUCE LEGIS-
LATION IN COMING DIET SESSION AUTHORIZING IT TO
REQUIRE PETROLEUM INDUSTRY TO INCREASE QUANTITY OF
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OIL HELD AS RESERVES. IT IS NOT YET DECIDED WHETHER
REQUIREMENT WILL BE EXPRESSED IN TERMS OF DAYS' CON-
SUMPTION OR ABSOLUTE QUANTITY, BUT UNPUBLISHED PLANNING
FIGURE BEING USED BY MITI FOR 90 DAY LEVEL IS INCREASE
OF 360 MILLION KILOLITERS OVER CURRENT LEVEL OF ABOVE
540 MILLION KILOLITERS (PART OF INCREASE IS TO RAISE
RESERVES FROM PRESENT LEVEL OF ABOUT 66 DAYS ON OECD BASIS,
REST IS TO TAKE INTO ACCOUNT EXPECTED INCREASE IN CON-

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SUMPTION RATE).

4. MITI WOULD APPORTION STOCKPILING BURDEN AMONG OIL COMPANIES THROUGH ADMINISTRATIVE GUIDANCE. ACCORDING TO OIL COMPANY SOURCE, MITI WILL APPORTION STOCKPILING REQUIREMENTS AMONG GROUPS OF AFFILIATED COMPANIES, RATHER THAN INDIVIDUAL COMPANIES, AND WILL SEEK TO PERSUADE GROUPS WITH EXCESS STORAGE CAPACITY TO NEGOTIATE SHARING ARRANGEMENTS WITH GROUPS NEEDING INCREASED CAPACITY. HOWEVER, SOURCE DOUBTS GROUPS WITH EXCESS CAPACITY WILL COOPERATE. SAME SOURCE REPORTS THAT MITI CONSIDERING VARIOUS METHODS OF ENFORCING ITS GUIDANCE ON STOCK LEVELS, INCLUDING DISQUALIFYING UNCOOPERATIVE FIRMS FROM UTILIZING GOVERNMENT SUBSIDIZED FINANCING (SEE BELOW) OR REJECTING REFINARY EXPANSION APPLICATIONS.

5. UNDER STOCKPILING PLAN FOR JFY 1975, GOVERNMENT ASSISTANCE WILL TAKE TWO FORMS:
(A) FINANCING OF INCREASE IN STOCKS. JAPAN PETROLEUM DEVELOPMENT CORPORATION (JPDC) WILL PROVIDE, UNDER EXISTING AUTHORITIES, GUARANTEES FOR YEN 58.8 BILLION (ABOUT $200 MILLION) IN LOANS FROM COMMERCIAL BANKS TO PRIVATE OIL COMPANIES AND WILL SUBSIDIZE INTEREST RATE PAID TO A LEVEL 4 PERCENT BELOW PRIME RATE (CURRENTLY 9-10 PERCENT). SINCE STOCKS ON HAND ALREADY NEAR 70 DAY LEVEL, GUARANTEES AND SUBSIDIZED INTEREST RATE DESIGNED TO HELP FINANCE MAINTAINING 3 TO 4 DAYS' STOCKS AS RESERVES.

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RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00

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R 230905Z JAN 75
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 7496
INTO RUFHOL/AMEMBASSY BONN 1549
AMEMBASSY BRUSSELS
US MISSION EC BRUSSELS
AMEMBASSY JIDDA
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US MISSION EC PARIS
AMEMBASSY ROME
AMEMBASSY TEHRAN

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(B) TWO TYPES OF ASSISTANCE FOR PETROLEUM STORAGE FACILITIES: (I) JOINT GOVERNMENT/PRIVATE STOCKPILING COMPANY WILL BE SET UP TO PURCHASE LAND AND CONSTRUCT ADDITIONAL FACILITIES WHICH WILL PROVIDE FOR APPROXIMATELY 25 PERCENT OF ANTICIPATED 360 MILLION KILOLITERS IN-CREASE IN RESERVES. GOJ (I.E. JPDC) WILL INVEST YEN 3 BILLION (ABOUT $10 MILLION) IN STOCKPILING COMPANY AND WILL MAKE INVESTMENT IN COMPANY BY PRIVATE INDUSTRY A PRECONDITION TO RIGHT TO LEASE COMPANY'S FACILITIES. JPDC WILL ALSO MAKE INITIAL LOAN OF YEN 5 BILLION (ABOUT $17 MILLION) TO NEW COMPANY PRIMARILY FOR LAND ACQUISITION AT AN INTEREST RATE YET TO BE CONFIDENTIAL

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DETERMINED BUT CONSIDERABLY BELOW MARKET RATES. (II) GOJ WILL DIRECTLY LEND PRIVATE INDUSTRY YEN 20 BILLION (ABOUT $70 MILLION) FOR CONSTRUCTION OF NEW STORAGE FACILITIES. FUNDS WILL BE PROVIDED BY JAPAN DEVELOPMENT BANK AND OKINAWA DEVELOPMENT PUBLIC COR-PORATION AT 8 PERCENT INTEREST. ACCORDING TO YAMAMOTO, MANY FIRMS MAY ALREADY HAVE ADEQUATE STORAGE CAPACITY TO MEET 70 DAY TARGET BY END OF JFY 1975, BUT, LOOKING AHEAD TO 90 REQUIREMENT FOR END OF JFY 1979, THEY WILL HAVE TO BEGIN SOME CONSTRUCTION IN JFY 1975.

6. IN PRELIMINARY EFFORT TO REASSURE LOCAL GOVERNMENTS, GOJ WILL ALSO GRANT YEN 500 MILLION($1.7 MILLION) TO LOCAL GOVERNMENT ENTITIES TO CONDUCT RESEARCH INTO SAFETY MEASURES.

7. COMMENT: IN CARRYING OUT PLAN TO INCREASE RESERVES, JAPAN EXPECTED TO FACE TWO MAJOR PROBLEMS: (A) COST. WHILE COST INVOLVED FOR JFY 1975 NOT IN-TIRELY CLEAR, TOTAL COST OF REACHING 90 DAY RESERVE

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LEVEL HAS BEEN ESTIMATED BY GOJ AT $5.5 BILLION.
THIS WILL PLACE HEAVY FINANCIAL BURDEN ON JAPAN, BE IT GOVERNMENT OR PRIVATE SECTOR. LATTER WILL LIKELY STRONGLY RESIST GOJ EFFORTS TO COMPEL IT TO BEAR MAIN FINANCIAL BURDEN, AND DEBATE OVER ITS SHARE WILL UN-DOUBTEDLY BE RE-OPENED DURING NEXT YEAR'S BUDGET DELIBERATIONS.
(B) LOCAL OPPOSITION. ALTHOUGH MITI, ACCORDING TO YAMAMOTO, WILL TAKE LEAD IN NEGOTIATING WITH LOCAL AUTHORITIES FOR LAND, CRUCIAL QUESTION REMAINS EXTENT TO WHICH IT WILL BE POSSIBLE TO ACQUIRE LAND FOR BUILDING FACILITIES, AS WELL AS TO EXPAND STORAGE FACILITIES ON PRESENTLY-OWNED LAND. LOCAL OPPOSITION TO OIL COMPANY OPERATIONS ALREADY STRONG, E.G. TO REFINERY CONSTRUCTION AND, PARTICULARLY SINCE OIL SPILL INTO INLAND SEA FROM MITSUBISHI STORAGE TERMINAL, TO STORAGE CONSTRUCTION. ONE INDICATION OF RISING LOCAL OPPOSITION, AND RESULTANT COST, ACCORDING TO OIL COMPANY SOURCE, IS THAT QTE NUISANCE MONEY UNQTE TO LOCAL FISHERMAN FOR OFFSHORE DRILLING HAS RISEN ALMOST TEN-FOLD OVER PAST FEW YEARS. UNDER THESE
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CIRCUMSTANCES, TOUGH SLEDDING CAN BE EXPECTED FOR BOTH GOJ AND PRIVATE SECTOR IN MOVING TOWARD 90 DAY STOCK GOAL.
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